

Message Text

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O 151837Z MAY 74

FM AMEMBASSY MONTEVIDEO

TO SECSTATE WASHDC IMMEDIATE 6510

S E C R E T SECTION 1 OF 4 MONTEVIDEO 1270

E.O. 11652: XGDS 2

TAGS: PFOR, US, UY

SUBJECT: CASP PRE IG - URUGUAY

REF : STATE 094333

1. THE EMBASSY'S COMMENTS ON MATTERS RAISED DURING PRSX
IG REVIEW OF URUGUAY CASP FOLLOW. ITEMS ARE TREATED
IN THE ORDER IN WHICH THEY WERE PRESENTED IN THE REFTEL.

2. ASSESSMENT OF CURRENT ECONOMIC SITUATION AND PROSPECTS
(PARA 2 REFTEL.

A. SOME PERSPECTIVE IS NEEDED IN JUDGING GOU PER-
FORMANCE IN IMPLEMENTING ECONOMIC POLICY AND REFORM
DECISIONS AND ITS RELATION TO SHORT AND MEDIUM TERM
ECONOMIC PROSPECTS. THE POLICY DECISIONS ANNOUNCED AT
SAN MIGUEL AND LA NIRVANA, FAVORABLE WORLD MARKET PROCESS
FOR URUGUAYAN EXPORTS, TOGETHER WITH CERTAIN CONCRETE
GOU SELF-HELP ACTIONS (REALISTIC AGRICULTURAL PRICE
POLICIES, IMPROVED FISCAL PERFORMANCE, RESTRICTIONS ON
LOCAL BEEF CONSUMPTION, REGULARIZATION OF COMMERCIAL

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ARREARAGES) ALL CONTRIBUTED TO GENERAL PUBLIC AND OFFICIAL

OPTIMISM ABOUT ECONOMIC PROSPECTS FOR 1974.

B. THE OIL PRICE RISE ANNOUNCED IN DECEMBER TRIPLED URUGUAY'S OIL IMPORT COSTS AND DEALT A RUDE SHOCK TO DEVELOPMENT-REFORM PLANS. THE GOU ACTED PROMPTLY AND COURAGEOUSLY TO INCREASE DRASTICALLY THE PRICE OF GASOLINE AND TO IMPOSE OTHER ENERGY USE RESTRICTIONS. EVEN WITH THIS NEWLY EMERGING FACTOR, THE GOU STILL HAD HOPES TO ADJUST TO THE INCREASED COST OF IMPORTS BY EXPANDING BEEF AND WOOL EXPORTS. AS OF JANUARY, THE GOU WAS ADVISING THE EMBASSY THAT DESPITE THE OIL COST INCREASES, IT STILL INTENDED TO UNDERTAKE A NUMBER OF KEY REFORM ACTIONS SUCH AS IMPORT LIBERALIZATION FOR CAPITAL GOODS, MONETARY CORRECTION, ETC.

C. IT WAS NOT UNTIL MID-FEBRUARY, WHEN THE EEC BEGAN TO RESTRICT BEEF IMPORTS AND WOOL PRICES BEGAN TO FALL, THAT THE FULL IMPACT OF THE ENERGY CRISIS CAME HOME TO THE GOU. ABOUT THE SAME TIME, THE MINISTER OF ECONOMY AND FINANCE RESIGNED AND THE PLANNING DIRECTOR WAS NAMED ACTING MINISTER UNTIL THE ANNUAL BUDGET PROGRAM (RENDICION DE CUENTAS) WAS APPROVED BY THE COUNCIL OF STATE. THE RESULTANT THREE-MONTH PERIOD OF UNCERTAINTY SEVERELY AFFECTED THE GOU'S ABILITY TO COPE FURTHER WITH THE EFFECTS OF THE ENERGY CRISIS. HOWEVER, IT IS QUESTIONABLE WHETHER EVEN DECISIVE ECONOMIC MANAGEMENT COULD HAVE SIGNIFICANTLY CHANGE THE SHORT-TERM PROSPECTS FOR DEALING WITH AN EXTERNALLY ORIGINATED PROBLEM OF THIS MAGNITUDE. IN ADDITION, SINCE LATE MARCH, URUGUAY HAS ALSO BEEN SUFFERING THE EFFECTS OF A SERIOUS DROUGHT WHICH HAS ADVERSELY AFFECTED AGRICULTURAL AND HYDROELECTRIC PRODUCTION. AS A RESULT OF ALL THESE FACTORS, WE NOW ESTIMATE THAT URUGUAY WILL HAVE A BALANCE OF PAYMENTS DEFICIT OF AROUND \$150-160 MILLION, A FISCAL DEFICIT OF ABOUT \$60-70 BILLION PESOS, CONTINUED INFLATION BETWEEN 80-90 O/O, AND NEGATIVE GROWTH IN 1974. THE ABOVE BLEAK FORECAST CONTRASTS STARKLY WITH THE FAVORABLE ECONOMIC RESULTS OF 1973 AND THE FORMER, WIDELY-HELD OPTIMISTIC EXPECTATIONS FOR 1974 INCLUDING A MODEST BALANCE OF PAYMENTS SURPLUS, INCREASED BEEF AND WOOL EXPORTS, A LOWER RATE OF INFLATION AND IMPROVED
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GROWTH PROSPECTS.

D. DURING THIS PERIOD, HOWEVER, THERE HAS BEEN SOME PROGRESS IN THE DEVELOPMENT-REFORM EFFORT INCLUDING PROMULGATION OF SATISFACTORY FOREIGN INVESTMENT AND INDUSTRIAL PROMOTION LAWS, EXPORT SIMPLIFICATION REFORMS AND AN OBSERVABLE IMPROVEMENT IN THE MANAGEMENT OF SOME STATE ENTERPRISES

(AFE, PORTS, ETC.). SPECIFIC LEGISLATION COVERING REFORM OF THE SOCIAL SECURITY, BANKING, TAX SYSTEMS AND FOREIGN TRADE INSTITUTIONS HAS BEEN PREPARED AND IS UNDER STUDY IN THE PRESIDENCY. LEGISLATION ON OIL DEVELOPMENT HAS BEEN APPROVED WHILE LAWS ON RENT CONTROLS AND TOURISM ARE CURRENTLY BEFORE THE COUNCIL OF STATE.

E. IT SEEMS TO US WORTH REEMPHASIZING THAT IN ANY ASSESSMENT OF GOU PERFORMANCE, PRIMARY WEIGHT MUST BE GIVEN TO FACTORS (\$100 MILLION INCREASE IN OIL IMPORT BILL ALONE, LAGGING EXPORTS, DROUGHT) OVER WHICH THE GOVERNMENT HAS LITTLE OR NO CONTROL. ADDITIONALLY, THESE FACTORS SEVERELY CONSTRAINED THE GOU'S CAPACITY TO CARRY OUT MANY OF THE ANNOUNCED ECONOMIC POLICY REFORMS (E.G. IMPORT LIBERALIZATION OF CAPITAL GOODS).

F. QUESTIONS RAISED IN THE REFTEL SUGGEST TO US THAT INADEQUATE WEIGHT WAS GIVEN BY PRE-IG TO THESE VIRTUALLY OVERWHELMING EXTERNAL FACTORS IN EVALUATING GOU PERFORMANCE OR REASONS FOR PRESSIMISM OVER SHORT-TERM PROSPECTS. URUGUAY, WHOSE PETROLEUM IMPORTS AMOUNT TO 38 PERCENT OF TOTAL IMPORTS, IS THE HARDEST HIT BY THE ENERGY CRISIS IN ALL LATIN AMERICA. CONSIDERING HOW MAJOR INDUSTRIAL AND DEVELOPING COUNTRIES AROUND THE WORLD HAVE HAD THEIR ECONOMIES BATTERED BY THIS CRISIS, IT SHOULD NOT BE HARD TO UNDERSTAND WHY SHORT-TERM ECONOMIC PROSPECTS ARE BLEAK FOR A FRAGILE, STAGNANT ECONOMY SUCH AS URUGAY'S OR WHY THE GOU ECONOMIC PERFORMANCE HAS NOT BEEN BETTER. WHILE WE HAVE NOT USED THESE EXTERNAL FACTORS TO JUSTIFY INCREASED AID ASSISTANCE, THEY CLEARLY WARRANT SYMPATHETIC UNDERSTANDING WHEN GOU PERFORMANCE IS ASSESSED.

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3. AID LENDING (PARA 3A, REFTEL).

A. THIS MISSION, AS CLEARLY REFLECTED IN THE DAP AND CASP, HAS INDICATED ITS VIEW THAT A SOUND ECONOMIC PROGRAM AND REASONABLE PERFORMANCE IN IMPLEMENTATION SHOULD BE THE BASIS ON WHICH AID LENDING IS PROVIDED. WE CONSIDER THAT AN IMF STANDBY CAN BE IMPORTANT IN DEVELOPING SUCH A PROGRAM AND HAVE ADVISED THE GOU THAT IT WOULD BE A PRE-CONDITION FOR CONSIDERATION OF THE AID EXPORT DEVELOPMENT LOAN. GIVEN THE ADVERSE BALANCE OF PAYMENTS PROSPECTS, THERE ARE INCREASING OFFICIAL INDICATIONS THAT A POSITIVE DECISION ON A STANDBY WILL BE MADE SHORTLY.

B. HOWEVER, WE CONSIDER IT UNDESIRABLE FOR THE CASP

TO REFER EXCLUSIVELY TO AN IMF STANDBY AS AN AID LOAN
PRE-CONDITION.
IT SHOULD ALSO ADMIT THE POSSIBILITY
THAT A FULLY ACCEPTABLE MACRO-ECONOMIC PROGRAM COULD BE
ADOPTED BY THE GOU OUTSIDE OF AN IMF STANDBY FRAMEWORK.
IN DEVISING SUCH A PROGRAM AND IN SETTING BENCHMARKS
FOR GOU PERFORMANCE, REALISM MUST GOVERN WHAT CAN BE
ACCOMPLISHED GIVEN THE IMPACT OF THE EXTERNAL FACTORS
CITED ABOVE ON SHORT-TERM PROSPECTS.

SFSC. IN THIS REGARD WE PROPOSE REVISION OF PRE-IG
INSERTION OF PAGE 11 AS FOLLOWS: "AUTHORIZATION OF
THIS LOAN SHOULD BE CONSIDERED ONLY IF THERE IS EVIDENCE
THAT THE GOU IS MAKING A REALISTIC EFFORT TO CARRY OUT
POLICY AND ADMINISTRATIVE CHANGES CONDUCIVE TO COPING WITH
THE PRESENT CRISIS AND TO MAKING THE LONG AWAITED ECONOMIC
TURN-AROUND OUT OF STAGNATION. EITHER AN IMF STANDBY OR

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O 151837Z MAY 74
FM AMEMBASSY MONTEVIDEO
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A COMPREHENSIVE MACRO-ECONOMIC PROGRAM ACCEPTABLE TO
AID WILL BE A NECESSARY PRECONDITION TO AUTHORIZATION
OF THE LOAN. IT IS ENCOURAGING THAT MANY OF THE MOST
IMPORTANT REFORMS HAVE BEEN ANNOUNCED BUT IT IS EQUALLY
IMPORTANT THAT THERE ALSO BE EVIDENCE THAT IMPLEMENTATION

IS UNDERWAY. IN JUDGING PERFORMANCE, HOWEVER, DUE CONSIDERATION SHOULD BE GIVEN TO THE IMPACT OF THE ENERGY CRISIS ON URUGUAY'S CAPABILITY TO IMPLEMENT ITS ANNOUNCED REFORM PROGRAM OVER THE SHORT TERM. OUR PURPOSE SHOULD BE SUPPORTIVE OF GOU EFFORTS TO MAKE CRITICALLY IMPORTANT POLICY AND INSTITUTIONAL CHANGES."

D. ALTERNATIVES CONSIDERED.

(1) CONTINUATION OF ASSISTANCE AT PRESENT (FY1974)

LEVELS:

WE UNDERSTAND PRESENT LEVELS TO MEAN CONTINUATION OF THE GRANT PROGRAM AT ABOUT \$1 MILLION WITH NO NEW LENDING. THIS ALTERNATIVE HAS BEEN FOLLOWED IN RESPECT TO AID ACTIVITIES IN URUGUAY IN RECENT YEARS. IT IS BASED ON THE ASSUMPTION THAT IT IS DESIRABLE TO MAINTAIN A MODEST AID PRESENCE IN URUGUAY, MOSTLY FOR FOREIGN POLICY REASONS, BUT THAT GIVEN THE RELATIVELY LOW LEVEL OF
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U.S. INTEREST HERE AND THE ABSENCE OF ANY SERIOUS DEVELOPMENT EFFORT, NO FURTHER AID LENDING IS WARRANTED. THIS ALTERNATIVE WOULD MAINTAIN A MINIMAL AID PRESENCE AND CONTRIBUTE MODESTLY TO OVERALL U.S. OBJECTIVES IN URUGUAY. IT WOULD ALSO MAKE POSSIBLE SOME USEFUL TECHNICAL ASSISTANCE CONTRIBUTIONS IN SEVERAL AREAS. IT WOULD NOT HOWEVER BE RESPONSIVE TO OPPORTUNITIES TO CONTRIBUTE TO CONSTRUCTIVE SELF-HELP EFFORTS IN MOVING URUGUAY OUT OF STAGNATION TOWARD ECONOMIC GROWTH AND REFORM.

FAILURE TO MAKE AN AID CONTRIBUTION TO URUGUAYAN DEVELOPMENT AND REFORM EFFORTS, WHEN THESE ARE SOUNDLY CONCEIVED AND OTHER COUNTRIES AND INTERNATIONAL AGENCIES ARE PARTICIPATING, WOULD BE CONTRARY TO U.S. INTERESTS HERE.

(2) CONTINUATION OF ASSISTANCE AT LEVELS

PROPOSED IN FY1975 CASP: THIS ALTERNATIVE PROPOSES A RENEWAL OF AID LENDING IN FY1975 (EXPORT DEVELOPMENT AND AGRICULTURAL EXTENSION LOANS) AND MAINTENANCE OF THE PRESENT GRANT LEVEL OF ABOUT \$1 MILLION.

THE RATIONALE FOR THIS ALTERNATIVE IS FULLY SUPPORTED BY THE DAP AND CASP. DESPITE THE RECENT ECONOMIC PROBLEMS DESCRIBED ABOVE, IT IS THE MISSION'S VIEW THAT THE CIVILIAN AND MILITARY LEADERSHIP OF THE GOU REMAINS UNITED IN A COMMITMENT TO A COMPREHENSIVE DEVELOPMENT--REFORM EFFORT ALONG THE LINES ANNOUNCED AT SAN MIGUEL AND LA NIRVANA. IN THIS EFFORT, THE GOU WILL BE OCCASIONALLY BUFFETED BY EXTERNAL FACTORS AND INTERNAL DIFFERENCES ON THE BEST TACTICS OR POLICIES TO FOLLOW. WHILE THE EFFORT MAY BE

AGONIZING AND SLOW, WE CONSIDER THAT THE GOU HAS THE WILL AND INTENT AND, HOPEFULLY, WILL DEVELOP AN IMPROVED CAPACITY TO CARRY OUT THE EFFORT. IT IS IN THE U.S. INTEREST TO HELP URUGUAY OVER ITS DIFFICULT TRANSITION FROM STAGNATION TO RECOVERY. WE ALSO BELIEVE THE GOU WILL ADOPT MANY OF THE NECESSARY ECONOMIC POLICY AND INSTITUTIONAL MEASURES THAT ARE IMPORTANT TO GROWTH AND REFORM AND, ON THAT BASIS, THE PROPOSED AID LENDING FOR FY1975 COULD MAKE A SIGNIFICANT CONTRIBUTION TO URUGUAY'S ECONOMIC AND SOCIAL DEVELOPMENT AS WELL AS
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OTHER USG INTERESTS HERE.

(3) PHASE OUT: THIS ALTERNATIVE COULD BE CONSIDERED EITHER IN THE CASE OF A CONSPICUOUS SUCCESS OR FAILURE OF URUGUAY'S DEVELOPMENT-REFORM EFFORT. NEITHER SEEMS TO BE IN THE OFFING DURING THE CASP TIME FRAME. ASSUMING THE GOU ADOPTS THE POLICY MEASURES REQUISITE TO COPING WITH THE PRESENT CRISIS WHICH ARE ALSO ESSENTIAL FOR GROWTH OVER THE MEDIUM AND LONG TERM, WE CONSIDER THE PROPOSED AID LENDING IN FY1975 COULD CONSTRUCTIVELY CONTRIBUTE TO THE DEVELOPMENT EFFORT. FOR REASONS SET FORTH IN THE DAP AND CASP, WE DO NOT PRESENTLY FORESEE A REQUIREMENT FOR AID LENDING AFTER FY1975 AND TENTATIVELY PROJECT A PHASE OUT OF THE AID PROGRAM IN FY1977 WHEN LOAN IMPLEMENTATION WOULD BE COMPLETED AND WHEN WE EXPECT THAT URUGUAY WILL BE WELL ALONG ON ITS ECONOMIC TURN-AROUND.

IF THE GOU DEVELOPMENT-REFORM EFFORT SERIOUSLY FALTERS OVER THE NEXT YEAR PRIMARILY DUE TO INTERNAL FACTORS, THIS ALTERNATIVE WOULD BE REVIEWED IN THE LIGHT OF EXISTING CIRCUMSTANCES AND PROSPECTS. AT PRESENT, HOWEVER, WE DO NOT CONSIDER IT A REALISTIC ALTERNATIVE.

(4) SIGNIFICANTLY EXPANDED ASSISTANCE: THIS ALTERNATIVE WOULD INVOLVE SIGNIFICANTLY INCREASED AID ASSISTANCE BOTH IN RESPECT TO LOANS AND GRANT ASSISTANCE. WHILE THE SHORT-TERM BALANCE OF PAYMENTS PROSPECTS ARE BLEAK AND URUGUAY'S NEED FOR CONCESSIONAL PROGRAM-TYPE ASSISTANCE DURING THIS PERIOD IS GREAT, WE DO NOT SEE THAT AID COULD OR SHOULD PROVIDE PROGRAM LENDING FOR BALANCE OF PAYMENTS PROBLEMS ARISING PRIMARILY OUT OF THE ENERGY CRISIS. THIS IS MORE APPROPRIATELY THE ROLE OF THE IMF OR OTHER INTERNATIONAL BODIES.

WE DO NOT CONSIDER A SIGNIFICANTLY EXPANDED PROGRAM APPROPRIATE BECAUSE AN IMPORTANT PORTION OF URUGUAY'S

EXTERNAL ASSISTANCE NEEDS ARE BEING OR PROBABLY WILL BE ADEQUATELY MET BY THE INTERNATIONAL ASSISTANCE AGENCIES (IBRD, IDB, IMF, UNDP, OAS).

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A SIGNIFICANTLY INCREASED AID PROGRAM IN URUGUAY, BEYOND WHAT IS PROPOSED IN THE CASP, IS NEITHER JUSTIFIED BY THE DEVELOPMENT REALITIES, BY GOU REQUESTS, OR BY THE OVERALL LEVEL OF USG INTERESTS IN THE COUNTRY.

4. SECURITY ASSISTANCE RELATIONSHIP (PAGP 3B1,A-E, REFTEL):

A. INSERT THE FOLLOWING AFTER THE SECOND SENTENCE IN THE LAST PARA OF PAGE 8: "IN THESE CONTEXTS, THE GOU HAS REQUESTED FMS CREDIT FOR THE ACQUISITION OF 12 A-37B AIRCRAFT, A REQUEST WHICH THIS MISSION SUPPORTS."

B. MVD 935 PROVIDED THE RATIONALE FOR OUR SUPPORT OF THIS REQUEST. URUGUAY IS DETERMINED TO HAVE AN AIR FORCE AND THE A-37X IS THE MOST ECONOMICAL AIRCRAFT IT COULD OBTAIN WITH RESPECT TO INITIAL COST, OPERATION AND MAINTENANCE. THE STRETCH-OUT OF EXISTING URUGUAYAN FMS DEBTS WAS NEGOTIATED IN WASHINGTON, PARTLY AS A POLITICAL GESTURE, AND PARTLY TO HELP THE GOU OVER A CRISIS PERIOD. IT IS OUR BELIEF THAT THE IMPACT OF REPAYMENTS OF A \$102 M AIRCRAFT CREDIT TO BE SPREAD OVER 8 TO 10 YEARS WOULD BE MANAGEABLE. WE DO NOT VIEW THIS CREDIT AS ONE WHICH WOULD "OVERBURDEN UNDERDEVELOPED COUNTRIES WITH MILITARY EXPENDITURES."

C. SECTION 4 OF THE FMS ACT DEALING WITH SOPHISTICATED WEAPONS SYSTEMS DOES NOT SEEM TO US TO BE APPLICABLE ON THE A-37B IS NOT A SOPHISTICATED WEAPONS SYSTEM. ON THE CONTRARY THE A-37B IS ONE OF THE SMALLEST, SIMPLEST, MOST INEXPENSIVE AND EASILY MAINTAINED MILITARY JET AIRCRAFT IN EXISTENCE.

D. WITH RESPECT TO PARA 3B1B OF REFTEL, WE DO NOT BELIEVE GOU WISHES TO CONCENTRATE ITS FMS CREDIT RESOURCES SOLELY ON THIS PURCHASE DURING THE CASP TIME FRAME. EO HAVE PROJECTED \$2.5 MILLION FOR EACH YEAR, ASSUMING APPROXIMATELY \$1 MILLION FOR THE ON-GOING TRI-SERVICE REQUIREMENTS AND \$1.5 MILLION FOR THE

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FM AMEMBASSY MONTEVIDEO

TO SECSTATE WASHDC IMMEDIATE 6512

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A-37'S. WE DO NOT EXPECT MAJOR EQUIPMENT REQUESTS FROM THE OTHER SERVICES. THE GOU, AT THE HIGHEST LEVELS, AND THE ARMED FORCES (NOT ONLY THE DAP) ARE IN COMPLETE ACCORD ON THEIR APPROACH TO FMS REQUESTS.

E. PARAS 3B1-D AND E OF REFTEL ASK ABOUT POSSIBLE OTHER SOURCES OF FINANCING. IT WOULD NOT BE IMPOSSIBLE FOR THE GOU TO OBTAIN PRIVATE CREDITS FOR A-37 FINANCING WITH A USG GUARANTEE TO SUPPORT IT. HOWEVER, THIS WOULD REPRESENT A HIGHER COST METHOD OF FINANCING AND WOULD CAUSE AN UNNECESSARY ADDITIONAL ECONOMIC BURDEN. IF THE USG IS UNWILLING TO SUPPORT THE PURCHASE OF THE A-37S, SOMEWHAT COMPARABLE AIRCRAFT PROBABLY WOULD BE OBTAINED ELSEWHERE. WE UNDERSTAND THAT INDIA ALREADY HAS APPROACHED THE GOU TO OFFER THE HAL/HAWKER SIDDLEY GNAT AND IT IS MOST LIKELY THAT BRAZIL WOULD BE RESPONSIVE TO URUGUAYAN NEEDS WITH ITS XAVANTI VERSION OF THE AERMACCHI. THE XAVANTI HAS BEEN PUT ON DISPLAY FOR SALES PURCHASES AND ITS PROMOTION IS LIKELY. ALSO,

BRAZILIAN AUTHORITIES HAVE HAD COVERT CONTACTS WITH THE
HARD-LINERS IN THE GOU ARMED FORCES AND HAVE PROMISED
THEM ASSISTANCE, ALTHOUGH NOT, TO OUR KNOWLEDGE, AIRCRAFT.

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F. OUR OVERALL CONVICTION IS THAT, GIVEN THE GOU
DETERMINATION TO HAVE AN AIR FORCE, THE SELECTION OF THE
A-37 MAKES EMINENT GOOD SENSE ON BOTH TECHNICAL AND
FINANCIAL GROUNDS. WE CAN SUPPORT IT ON BOTH AS WELL
AS FOR THE REASON THAT IT WOULD RESULT IN A SIZABLE
U.S. SALE WITH POSITIVE U.S. BOP IMPACT. IT
WOULD ALSO LIMIT THE ADVERSE ECONOMIC IMPACT
AS WELL BECAUSE ANY OTHER ACQUISITION ELSEWHERE OR
SRDER MORE COSTLY FINANCING WOULD ADD TO BOTH INITIAL
AND ON-GOING COSTS. MOREOVER, THERE ARE TWO STRONG
POLITICAL ARGUMENTS FOR OUR EING FORTHCOMING AT THIS
TIME; ONE CONCERNS PRESIDENT BORDABERRY AND THE OTHER
THE MILITARY INSTITUTION. PRESIDENT BORDABERRY, WHO
IS IN A PRECARIOUS POSITION VIS-A-VIS THE MILITARY, WANTS
THIS CREDIT AS HE BELIEVES IT WOULD IMPROVE HIS RELATION-
SHIPS AND HELP RETURN THE MILITARY'S FOCUS TOWARDS TRA-
DITIONAL PROFESSIONAL PURSUITS. WE HAVE STRONG INTEREST

IN HELPING THIS WELL-INTENTIONED AND SINCERE BUT EMBATTLED
PRESIDENT CARRY OUT HIS PROGRAMS. BUT IN ADDITION TO THIS,
OUR RELATIONS WITH THE MILITARY ARE LIKEWISE IMPORTANT
AS IT IS CLEAR THAT THEY HAVE ASSUMED A NEW POWER ROLE IN
URUGUAY AND WILL MAINTAIN IT FOR SOMETIME TO COME. WE
BELIEVE THAT A FAVORABLE OUTCOME ON THIS, THE MAJOR
MILITARY EQUIPMENT OVERTURE TO THE U.S. IN RECENT TIMES,
CAN HAVE A FUNDAMENTAL IMPACT ON ESTABLISHING THE NATURE
OF OUR RELATIONSHIP AND INFLUENCE WITH THE MILITARY.

5. MAP (PARA 3 B 2, REFTTEL)

A. MINIMUM ALTERNATE LEVEL RECOMMENDED FOR MAP-M,
INCLUSIVE OF EDA, FOR FY 75 AND FY 76 IS \$1.7 MILLION
WITH \$850 THOUSAND FOR EACH FY.

B. ALTERNATE LEVEL WOULD PERMIT MINIMUM ACQUISITION
OF INVESTMENT ITEMS AND PROVIDE SUFFICIENT FOLLOW-ON-
SPARES UNTIL GOU IS IN A POSITION TO RELY MORE HEAVILY ON FMS.

6. IMPACT OF MORE AUTHORITARIAN REGIME (PARA 4A REFTTEL.

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WE SUGGEST INSERTION OF THE FOLLOWING IN THE CASP AS NEW PARAGRAPHS BETWEEN THE PRESENT PARAS 4 AND 5 OF THE AMBASSADOR'S OVERVIEW ON PAGE 3: "THE POSSIBLE IMPACT OF A MORE AUTHORITARIAN GOVERNMENT IS DEALT WITH IN CONJUNCTION WITH OUR NATIONAL DEFENSE INTEREST. TO THAT I WOULD ADD THAT THE IMPACT OF A MILITARY REGIME ON OTHER U.S. INTERESTS WOULD BE LIMITED. WERE A MILITARY REGIME TO TAKE POWER THERE MIGHT BE A SHAKEDOWN PERIOD DURING WHICH ECONOMIC AND SOCIAL DEVELOPMENT MIGHT LAG. THEREAFTER, HOWEVER, THE GREATER CONCENTRATION OF POWER IN THE MILITARY GOVERNMENT WOULD PROBABLY LEAD TO IMPROVED DECISION-MAKING ABILITY, ESPECIALLY IN THE ECONOMIC POLICY AREA. IF THE MILITARY GOVERNMENT COULD THEN ATTRACT THE TALENT TO EXECUTE ITS PROGRAMS (MUCH ALREADY AGREED TO AT SAN MIGUEL AND LA NIRVANA), U.S. INTERESTS IN ECONOMIC AND SOCIAL DEVELOPMENT AND U.S. ECONOMIC PROSPERITY SHOULD BE ENHANCED.

"MOST OTHER U.S. INTERESTS WOULD BE LITTLE AFFECTED. HOWEVER, OUR INTEREST IN OPEN CHANNELS OF COMMUNICATION COULD BE ADVERSELY AFFECTED FOR A TIME. A NEW GOVERNMENT, STUNG BY UNFAVORABLE COMMENT WHICH MIGHT EMANATE FROM SOME ELEMENTS OF U.S. CONGRESS AND PRESS, WOULD FEEL OFFENDED. IT MIGHT THEREFORE REACT SUSPEINOUSLY UNTIL AN OFFICIAL USG REACTION AND COURSE OF CONDCUT HAD ESTABLISHED CLEARLY THAT A SATISFACTORY RELATIONSHIP WAS POSSIBLE. FAVORABLE DISPOSITION OF URUGUAYANS TOWARDS THE U.S., ESPECIALLY THOSE NOT IN GOVERNMENT, WOULD BE PUT TO THE TEST DURING THE PERIOD OF MILITARY RULE. THERE WOULD BE CONCERN FOR EVIDENCE OF OUR SUPPORT FOR THE LONG-TERM REVIVAL OF DEMOCRATIC INSTITUTIONS AND IT WOULD BE IMPORTANT, EVEN WHILE COOPERATING WITH THE MILITARY GOVERNMENT, TO MAINTAIN A POSITIVE IMAGE IN THIS REGARD."

7. ARGENTINE-BRAZILIAN RIVALRY (PARA 4 B, REFTEL)

A WE RECOMMEND INCLUSION OF THE FOLLOWING UNDER THE WORLD ORDER INTEREST: "WE FORESEE GGSOING URUGUAYAN-ARGENTINE AND URUGUAYAN-BRAZILIAN CONTACTS DURING THE CASP PERIOD WHICH WILL PLACE STRAINS ON URUGUAY'S TRADITIONAL EFFORTS TO BALANCE ITS RELATIONS WITH BRAZIL
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AND ARGENTINA. SERIOUS ECONOMIC PROBLEMS AND DOMESTIC POLITICAL INSTABILITY IN BURUGUAY COULD FURTHER AHARACT THE CONCERN AND SUBTLE INTERVENTION OF THESE POWERFUL NEIGHBORS, AS COULD THE STRONG DIFFERENCES BETWEEN THE LATTER. ARGENTINA'S CURRENT

POLICY OF SUPPORTING THE BORDABERRY ADMINISTRATION THROUGH ECONOMIC ASSISTANCE HAS CREATED CONCERN WITHIN THE BRAZILIAN GOVERNMENT OVER WHAT IS VIEWED AS ARGENTINE EXPLOITATION OF LOCAL WEAKNESS TO IMPROVE ITS INFLUENCE. ELEMENTS WITHIN THE BRAZILIAN GOVERNMENT, IN TURN, HAVE SOUGHT TO INCREASE BRAZILIAN INFLUENCE BY URGING A MORE MILITARILY DOMINATED GOVERNMENT, INCLUDING THE POSSIBLE REMOVAL OF BRODABERRY FROM THE PRESIDENCY."

"THE GOU WILL LIKELY SEEK COMFORT FROM THIRD COUNTRIES, ESPECIALLY THE UNITED STATES, IN ITS EFFORT TO MAINTAIN A GEO-POLITICAL EQUILIBRIUM. THE GOU WILL ALSO CONTINUE TO SEEK A STRENGTHENED REGIONAL SECURITY SYSTEM AIMED AT AVOIDING MW LIMITING HEMISPHERIC CONFLICTS IN WHICH IT MIGHT BE CAUGHT UP. WE SHOULD SEEK TO ENCOURAGE THIS LATTER MUTUAL USG-GOU INTEREST."

8. U.S. ECONOMIC PROSPERITY INTEREST (PARA 4 C, REFTTEL)

A. THE EMBASSY DOES NOT OBJECT TO RECLASSIFYING THE LEVEL OF CONCERN (LOC) FOR THE US ECONOMIC PROSPERITY INTEREST FOR FY 75 FROM LOW TO MEDIUM IN CASP DRAFTING SESSIONS, EMBASSY WAS FULLY AWARE OF THE HIGH LEVEL OF USG INTEREST IN COMMERCIAL ACTIVITIES, BUT OUR FINAL CONCLUSION WAS THAT REALISM AND A STRICT OBSERVANCE OF THE CASP INSTRUCTIONS PERMITTED ASSIGEEGSS MEDIUM LOC TO THE US ECONOMIC PROSPERITY INTEREST FOR FY 74, BUT NOT FY 75. NEVERTHELESS WE ACCEPT THE CHANGE REFTTEL PROPOSES IN THE TEXT OF EXPLANATION ON PAGE 24 OF THE CASP.

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ACTION ARA-20

INFO OCT-01 ISO-00 DODE-00 AID-20 IGA-02 PM-07 L-03

CIAE-00 COME-00 EB-11 FRB-02 INR-10 NSAE-00 RSC-01

TRSE-00 XMB-07 OPIC-12 SP-03 CIEP-02 OMB-01 NSC-07

SS-20 STR-08 CEA-02 AGR-20 FEA-02 DEAE-00 SNM-02

INRE-00 SSO-00 NSCE-00 DRC-01 /164 W

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FM AMUBASSY MONTEVIDEO

TO SECSTATE WASHDC IMMEDIATE 6513

S E C R E T SECTION 4 OF 4 MONTVIDEO 1270

B. THE EMBASSY IS DOING ALL IT CAN "TO EXPLOIT MORE FULLY THE OPPORTUNITIES THAT DO EXIST" IN ACCORDANCE WITH OUR COMMERCIAL ACTION PROGRAM (CAP). WE WISH TO POINT OUT, HOWDEZ, THAT THE MEDIUM LOC NOW ASSIGNED TO THE ENTIRE CASP PERIOD, PLUS THE "INTENSIFIED EFFORT" WHICH WE ARE BEING CALLED UPON TO MAKE, SEEMS INCONSISTENT WITH KEEPING THE ECONOMIC AND COMMERCIAL SECTION UNDER STRENGTH. THE LONG-VACANT OFFICER POSITION IN THE ECOM SECTION IS TO REMAIN VACANT (PARA 4F, REFTEL). THE EMBASSY HAS LOST THE EFFECTIVE UTILIZATION OF ECOM'S ONLY JUNIOR OFFICER FOR ALMOST THE

ENTIRE SECOND YEAR OF HIS TOUR OF DUTY HERE (WHICH NORMALLY WOULD BE THE MORE PRODUCTIVE YEAR OF HIS TOUR) BY HIS ASSIGNMENT TO SIX-MONTHS' TDY IN VIET-NAM AT THE OUTSET OF HIS SECOND YEAR; HE WILL RETURN HERE WITH THE NEED TO REORIENT HIMSELF IN URUGUAYAN AFFAIRS ONLY A FEW MONTHS BEFORE HE IS DUE FOR TRANSFER. WE SHALL, OF COURSE, WATCH CONSTANTLY FOR WAYS TO REPROGRAM, AS REFERENCE TELEGRAM REQUIRES, "AVAILABLE RESOURCES TOWARD MORE PRODUCTIVE UTILIZATION".

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9. RESOURCE LEVELS (PARA 4D, REFTEL)

A. INCREASES IN RESOURCE LEVELS, AS THE FOOTNOTE TO CASP TABLE I STATED, WERE BASED ON THE ADDITION TO DOLLAR COSTS CAUSED BY DOMESTIC INFLATION TO THE EXTENT TO WHICH INFLATION IS NOT COMPENSATED FOR BY EXCHANGE RATE ADJUSTMENTS. DURING CY 1973, THE URUGUAYAN COST OF LIVING ROSE BY 77 PERCENT WHILE ZVE FINANCIAL RATE OF EXCHANGE (BASIS FOR EMBASYQ TRANSACTIONS) MOVED ONLY 7 PERCENT. THIS 70-POINT INCREASE IN OUR DOLLAR COSTS DURING 1973 NATURALLY LOOMED LARGE IN OUR CALCULATIONS IN FEBRUARY 1974 WHEN ESTIMATING RESOURCE LEVELS FOR FY 75 AND FY 76.

B. ON THE BASIS OF GOU FIGURES RECENTLY RELEASED, WE HAVE CALCULATED THAT, DURING THE FIRST QUARTER OF CY 1974, THE COST OF LIMJNG ROSE BY 22.4 PERCENT WHILE THE

FINANCIAL RATE OF EXCHANGE MOVED BY 21.5 PERCENT. THUS IN CONTRAST TO LAST YEAR THE INFLATION MOVED ONLY SLIGHTLY FASTER DURING THIS PERIOD THAN THE EXCHANGE RATE. (THERE WERE, HOWEVER, NO "FOREIGN EXCHANGE SAVINGS". SUCH AS WOULD HAVE OCCURRED HAD THE EXCHANGE RATE MOVED FASTER IN OUR FAVOR THAN THE INFLATION.)

C. WE HAVE NO WAY OF KNOWING WHETHER THE TREND OF INFLATION-VS-EXCHANGE-RATE OBSERVABLE IN THE FIRST QUARTER OF CY 74 WILL CONTINUE FOR THE REST OF THIS YEAR, OR WHETHER THE TREND OF CY 73 WILL TURN OUT TO BE MORE CHARACTERISTIC OF FY75 AND FY76. EITHER OUT-COME IS POSSIBLE, AS THESE TRENDS RESPOND NOT ONLY TO ECONOMIC FACTORS THAT ARE DIFFICULT TO PREDICT BUT ALSO TO POLITICAL DECISIONS THAT ARE UNPREDICATABLE. UNDER THE CIRCUMSTANCES, IT MIGHT BE SAFER TO ASSUME THAT THE TREND REPRESENTED BY A TWELVE-MONTH PERIOD IS MORE LIKELY TO PREVAIL THAN THAT OF A THREE-MONTH PERIOD, WHICH MEANS WE SHOULD CONTINUE TO ASSUME INCREASES IN DOLLAR COSTS DUE TO UNCOMPENSATED INFLATION. WE BELIEVE THEREFORE THAT THE MORE REALISTIC COURSE OF ACTION IS TO LEAVE STANDING THE RESOURCE LEVELS PROJECTED IN THE CASP, BASED AS THEY ARE ON RECENT EXPERIENCE OVER A REASONABLE LENGTH OF TIME.

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10. NARCOTICS (PARA 4 E, REFTEL

THE PRE IG FAILURE TO ENDORSE THE SEPARATE LINE ITEM ON NARCOTICS TRAVEL AND REPRESENTATION AND ITS SUGGESTION TO COVER THEM OUT OF NORMAL REPRESENTATION IS UNREALISTIC. NARCOTICS-RELATED TRAVEL IS NOT REPRESENTATION AND NARCOTICS-RELATED REPRESENTATION CANNOT BE SUBSUMED AS SUGGESTED. THE LEVEL OF PRESENT REPRESENTATION ALLOTMENTS DOES NOT COVER OTHER EXISTING REQUIREMENTS AND THUS PRECLUDES THE USE OF SUCH FUNDS FOR NARCOTICS-RELATED PURPOSES. ADDITIONAL FUNDING SHOULD BE MADE AVAILABLE FOR NARCOTICS-RELATED ACTIVITIES AS REQUESTED. SIRACUSA

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: ECONOMIC CONDITIONS, ECONOMIC DEVELOPMENT, ECONOMIC ASSISTANCE, MEETINGS, CASP, POLITICAL SITUATION, ECONOMIC PROGRAMS, FOREIGN POLICY POSITION, MEETING REPORTS
Control Number: n/a
Copy: SINGLE
Draft Date: 15 MAY 1974
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: garlanwa
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1974MONTEV01270
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: X2
Errors: N/A
Film Number: D740120-0184
From: MONTEVIDEO
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1974/newtext/t19740546/aaaabotk.tel
Line Count: 699
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION ARA
Original Classification: SECRET
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 13
Previous Channel Indicators: n/a
Previous Classification: SECRET
Previous Handling Restrictions: n/a
Reference: STATE 094333
Review Action: RELEASED, APPROVED
Review Authority: garlanwa
Review Comment: n/a
Review Content Flags:
Review Date: 23 SEP 2002
Review Event:
Review Exemptions: n/a
Review History: RELEASED <23 SEP 2002 by kellew0>; APPROVED <10 JAN 2003 by garlanwa>
Review Markings:

Declassified/Released
US Department of State
EO Systematic Review
30 JUN 2005

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: CASP PRE IG - URUGUAY
TAGS: PFOR, US, UY
To: STATE
Type: TE
Markings: Declassified/Released US Department of State EO Systematic Review 30 JUN 2005